

# Report of the auditor-general to the Eastern Cape Provincial Legislature and council on Elundini Local Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Elundini Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget and actual amount for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Elundini Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the South African standards of Generally Recognised Accounting Practices (GRAP) and the requirements of the Municipal Finance Management Act (Act no. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act no.1 of 2018) (Dora).

### Basis for opinion:

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Restatement of corresponding figures

7. As disclosed in note 40 the financial statements, the corresponding figures for 30 June 2018 have been restated as a result of errors in the financial statements of the municipality at, and identified during the year ended, 30 June 2019.

### **Irregular expenditure**

8. As disclosed in note 44.3 to the financial statements, the municipality incurred irregular expenditure of R50,6 million (2017-18: R54,3 million) as it did not follow a proper procurement processes.

### **Material impairments – receivables**

9. As disclosed in notes 3 to the financial statements, material impairments for receivables from exchange transactions to the amount of R21,2 million (2017-18: R15,4 million) respectively were incurred as a result of non- payment by trade debtors.
10. As disclosed in notes 4 to the financial statements, material impairments for receivables from non-exchange transactions to the amount of R10,3 million (2017-18: R6,5 million) respectively were incurred as a result of non- payment by trade debtors.

### **Material losses - electricity**

11. As disclosed in note 45 to the financial statements, material electricity losses of R5, 0 million (2017-18: R4, 7 million) was incurred, which represents 24% (2017-18: 23%) of total electricity purchased. The electricity losses are due to inadequate controls within the municipality to ensure that loss events are monitored and attended regularly, and that the infrastructure is properly maintained.

### **Other matters**

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited disclosure notes**

13. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and accordingly we do not express an opinion thereon.

### **Unaudited supplementary information**

14. The supplementary information set out on pages ... to ... do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

### **Responsibilities of the accounting officer for the financial statements**

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA and DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
16. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## Auditor-general's responsibilities for the audit of the financial statements

17. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
18. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

### Report on the audit of the annual performance report

#### Introduction and scope

19. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
20. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
21. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2019:

Development priority	Pages in the annual performance report
KPA 2 - Basic services and infrastructure	x – x

22. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

23. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

## **KPA 2 – Basic service and infrastructure**

### **Various indicators**

24. The target and the performance measure for the below indicators is not well defined as the target is not specific in relation to the indicator. The target and the expected performance is in percentages whereas the indicator is defined as kilometres.

Indicator name	Planned target	Reported achievement
KMs of paved roads constructed: Upgrading of Vincent Streets & Stormwater	80%	71%
KMs of unpaved access roads constructed: Liphofung Access Road	60%	70%

### **Number of households and commercial properties with access to refuse collection service**

25. The source information and evidence for achieving the planned indicator was not clearly defined. The planned target for this indicator is not measurable, as the source data for reported achievement has been changed from planned data.

### **Number of indigent households with access to free basic services**

26. The systems and processes that enable reliable reporting of achievement against the indicator were not adequately designed as the municipality did not have a system that enables it to verify whether or not their indigents were valid.

### **Other matters:**

27. I draw attention to the matters below:

### **Achievement of planned targets**

28. Refer to the annual performance report on pages ... to ... to for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 24; 25 and 26 of this report.

### **Unaudited supplementary schedules**

29. The supplementary information set out on pages ... to ... do not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.



### Introduction and scope

30. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
31. The material findings on compliance with specific matters in key legislations are as follows:

### Annual financial statements, performance and annual reports

32. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current liabilities, expenditure and disclosure item identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently.

### Expenditure management

33. Reasonable steps were not taken to prevent irregular expenditure amounting to R50,6 million as disclosed in note 44.3 to the annual financial statements, as required by section 62(1)(d) of the MFMA.

### Revenue management

34. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

### Conditional grants

35. Performance in respect of programmes funded by the Expanded Public Works Programme Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the DoRA.

### Procurement and contract management

36. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
37. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of the code of conduct for councillors issued in terms of the Municipal Systems Act.

### Other information

38. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those

selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

39. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
40. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
41. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

#### Internal control deficiencies

42. I considered internal control relevant to my audit of financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
43. Leadership did not provide adequate oversight in ensuring that there are policies and procedures in place and monitor implementation of such policies to enhance the control environment, as a result the existing controls could not prevent, detect or correct material misstatements on the financial statements, annual performance report and instances of non-compliance with laws and regulations before submitting for audit purposes.

44. The municipality did not perform monthly processing and reconciliation of transaction to ensure that accounting records are accurate, complete and supported by adequate supporting documentation, this is evidence by material misstatements identified in the financial statements submitted for audit. In addition, compliance with legislation was not monitored adequately throughout the year, resulting in numerous material findings on compliance with legislation.

Auditor - General

East London

24 January 2020



AUDITOR - GENERAL  
SOUTH AFRICA

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## **Annexure – Auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Elundini Local Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.